

You have received this document through USAID Internet site. Some of the Attachments/Forms/Appendices/Exhibits in Section J have been supplied to you electronically. Other Attachments/ Forms/ Appendices/ Exhibits which may not be included electronically in this solicitation may be found on the USAID Internet site under the directory "Common Forms for USAID Solicitations", under Section 53 of the Federal Acquisitions Regulations, or by contacting the person in block 10 of the SF 33. If you are not using Word 97 to view this document, you will have to save the document in the format of the wordprocessor that you are using in order to view and print the standard form. The number of pages contained in this electronic copy may not exactly correspond to the hard paper copy, although all the information, except those Attachments mentioned above, is contained herein.

If you have received this RFP electronically then you must notify the contact person listed in block 10 of the original SF 33 of the original RFP in writing or via facsimile. The Agency is not responsible for any data/text that may not be received when using an electronic form to obtain this document. If the recipient does not notify the contact person that they have obtained this document then any amendments to the document may not be received by the recipient and the recipient could risk being found unresponsive if an offer is made against this solicitation, of which any amendment would become part.

|  |                                    |   |                                   |
|--|------------------------------------|---|-----------------------------------|
| AMENDMENT OF SOLICITATION/MODIFICATION OF CONTRACT   |                                    | 1. CONTRACT ID CODE                               | PAGE OF PAGES<br>1 14             |
| 2. AMENDMENT/MODIFICATION NO.<br>03  | 3. EFFECTIVE DATE<br>April 2, 2001 | 4. REQUISITION/PURCHASE REQ. NO.                  | 5. PROJECT NO.<br>(If applicable) |
| 6. ISSUED BY CODE<br>USAID/RSC/RCO<br>1054 Budapest, Szabadsag ter 7-8<br>Bank Center Building, Granit Tower<br>Hungary-1054<br>Attn: Mr. Ashraf E. Soos |                                    | 7. ADMINISTERED BY CODE<br>(If other than Item 6) |                                   |
| 8. NAME AND ADDRESS OF CONTRACTOR (No., street, county, State and ZIP code)  |                                    | 9A. AMENDMENT OF SOLICITATION NO.<br>160-01-13    |                                   |
|  |                                    | 9B. DATED (SEE ITEM 11)<br>March 6, 20010         |                                   |
|  |                                    | 10A. MODIFICATION OF CONTRACT/ORDER NO.           |                                   |
|  |                                    | 10B. DATED (SEE ITEM 13)                          |                                   |
| CODE   | FACILITY CODE                      |   |                                   |

11. THIS ITEM ONLY APPLIES TO AMENDMENTS OF SOLICITATIONS

☒ The above numbered solicitation is amended as set forth in Item 14. The hour and date specified for receipt of Offers ☒ is extended, ☐ is not extended. Offerors must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation or as amended, by one of the following methods: (a) By completing Items 8 and 15, and returning   1   copies of the amendment; (b) By acknowledging receipt of this amendment on each copy of the offer submitted; or (c) By separate letter or telegram which includes a reference to the solicitation and amendment numbers. FAILURE OF YOUR ACKNOWLEDGMENT TO BE RECEIVED AT THE PLACE DESIGNATED FOR THE RECEIPT OF OFFERS PRIOR TO THE HOUR AND DATE SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If by virtue of this amendment you desire to change an offer already submitted, such change may be made by telegram or letter, provided each telegram or letter makes reference to the solicitation and this amendment, and is received prior to the opening hour and date specified.

12. ACCOUNTING AND APPROPRIATION DATA (If required)

13. THIS ITEM APPLIES ONLY TO MODIFICATIONS OF CONTRACTS/ORDERS, IT MODIFIES THE CONTRACT/ORDER NO. AS DESCRIBED IN ITEM 14.

|   |
|---|
| A. THIS CHANGE ORDER IS ISSUED PURSUANT TO: (Specify authority) THE CHANGES SET FORTH IN ITEM 14 ARE MADE IN THE CONTRACT ORDER NO. IN ITEM 10A.  |
| B. THE ABOVE NUMBERED CONTRACT/ORDER IS MODIFIED TO REFLECT THE ADMINISTRATIVE CHANGES (such as changes in paying office, appropriation data, etc.) SET FORTH IN ITEM 14, PURSUANT TO THE AUTHORITY OF FAR 43.103(b). |
| C. THIS SUPPLEMENTAL AGREEMENT IS ENTERED INTO PURSUANT TO AUTHORITY OF:  |
| D. OTHER (Specify type of modification and authority)   |

E. IMPORTANT: Contractor ☐ is not, ☐ is required to sign this document and return        copies to the issuing office.

14. DESCRIPTION OF AMENDMENT/MODIFICATION (Organized by UCF section headings, including solicitation/contract subject matter where feasible.)

The purpose of this modification is to provide all Offerors USAID responses to general questions submitted by potential offerors. The questions responded to represents questions that USAID has determined should be clarified to all potential offerors.

Except as provided herein, all terms and conditions of the document referenced in Item 9A or 10A, as heretofore changed, remains unchanged and in full force and effect.

|   |                  |  |                  |
|---|------------------|--|------------------|
| 15A. NAME AND TITLE OF SIGNER (Type or print) |                  | 16A. NAME AND TITLE OF CONTRACTING OFFICER (Type or print) |                  |
|   |                  | Andrew D. Holland  |                  |
| 15B. CONTRACTOR/OFFEROR                       | 15C. DATE SIGNED | 16B. UNITED STATES OF AMERICA                              | 16C. DATE SIGNED |
| (Signature of person authorized to sign)      |                  | BY <i>Andrew D. Holland</i>                                | 4/2/01           |
|   |                  | (Signature of Contracting Officer)                         |                  |

NSN 7540-01-152-8070  
PREVIOUS EDITION UNUSABLE

30-105

STANDARD FORM 30 (REV. 10-83)  
Prescribed by GSA  
FAR (48 CFR) 53.243

Attachment No. 8  
Responses to Questions and Comments

**A. There is a contradiction in the RFP regarding the number of enterprises listed for privatization. Page 8 indicates that there are 400 enterprises listed for privatization and page 14 indicates that there are 600 enterprises. Please clarify.**

Fresh information is continually coming out of the Croatian Privatization Fund (CPF), and the CPF's portfolio has expanded as the Government has consolidated assets. Most recently, the CPF has made publicly available a "State Portfolio Privatization Program and Plan", in which the CPF states that 1404 joint stock companies remain in the CPF portfolio. Of this 1404, 918 are companies for which the State share is less than 25% and 488 companies for which the State share is over 25%. It is the latter 488 that correspond to the RFP's referenced 400 or 600 enterprises. Attached (Attachment No. 9) to this response for convenience is a copy of the CPF's plan. While the plan is dated February 2001, it was only made available to the Mission in mid-March. Nevertheless, the tangible results and benchmark are clear with regard to what is required and the reader is referred to that section of the RFP.

**B. Is it possible for USAID to provide the background assessments and reports written by and for the Croatia Privatization Fund (CPF) regarding the CPF's electronic information needs as referenced on page 14 of the RFP?**

USAID does not have any background assessments or reports regarding the CPF's electronic information needs. You are referred to RFP modification 1 published on March 14, 2001 that deals with, among other items, the successful contractor's evaluation and assessment of information needs as they pertain to the goals of this activity and the limitations on the Mission's budgetary expectations in regard to enhancements therein.

**C. Please confirm that in the current project scope there is no intention for the successful contractor to provide training to the Croatia Privatization Fund in asset or fund management.**

As referenced in Amendment 1 of the RFP dated March 14, 2001, the Mission has not determined whether or how to support the CPF beyond its transition from a Privatization Fund to its possible new role as an asset management fund or Development Agency. Limited training in both asset management and general Privatization Fund management, as it pertains to the successful achievement of the privatization goals stated in this RFP, is anticipated.

## I. A REVIEW OF PREVIOUS RESULTS OF PRIVATIZATION POLICY

### *Introduction*

*During the past decade of transition, Croatia, in contrast to the most advanced transition countries, did not in large measure succeed in achieving the desired results of its privatization policy, so it has entered the second transition decade with a considerably large gap between actual achievements and intended effects. Such a state of affairs has led to a catastrophic situation in the national portfolio, a lack of confidence in the privatization process among the general public and potential investors, and considerable social resistance to future privatization projects, sometimes entailing calls for re-privatization conditioned by social security.*

*It is a fact that despite the progress achieved, Croatia has conducted its privatization process considerably slower than the group of transition countries now in the first round of integration with the European Union (Hungary, Poland, the Czech Republic, Slovenia and Estonia). Privatization policy in these countries up to the end of the 1990s had already achieved its initial task to a large measure and succeeded in transforming planned command economic systems into working market economies with a dominant and competitive private sector in the creation of GDP, thereby creating the fundamental ownership conditions for a return to economic growth. All of these countries, with the exception of the proverbially cautious Slovenia, have achieved in this sense the standards of the majority of OECD countries, i.e. a 65-75 percent share of the private sector in GDP. By way of comparison, this share in Croatia is approximately 60 percent.*

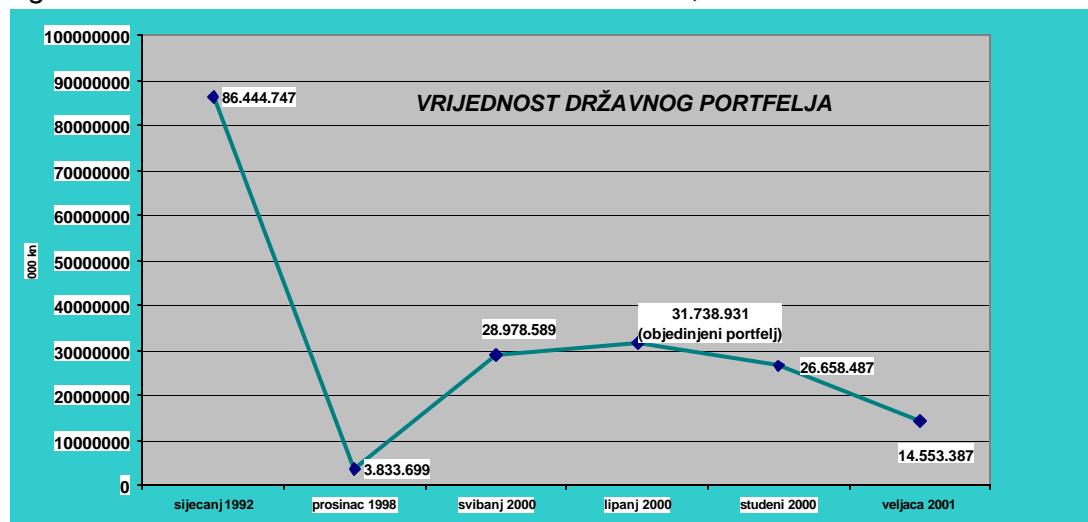
*Due to this state of affairs, it was necessary to define the methods for solving a series of inherited problems tied to the procedural irregularities of the preceding period, and simultaneously prepare proposals for future institutional-regulatory solutions to accelerate the continuation of the privatization process in Croatia in its second transition decade, particularly in reference to the further privatization and management of the residual portfolio held by the Croatian Privatization Fund, the Croatian Health Insurance Institute, the Croatian Pension Insurance Institute, the National Deposit Insurance and Bank Rehabilitation Agency, state-owned companies and public companies.*

### *The First Decade of Transition*

*From 1991 to the end of 1999, the privatization process encompassed a total of 2,650 former socially-owned companies, and 667 of these were industrial. Out of the total of HRK 86 billion of capital tied up in the transformation and privatization process, the first transition decade formally ended with HRK 3.8 billion in non-privatized portfolios, which creates an erroneous perception of the success of the process as carried.*

The Croatian privatization model was primarily based on case-by-case principle sales methods with preferential treatment to privileged buyers and with the approval of considerable discounts to former and current employees. The approval of these discounts and considerably extended repayment periods created the “small shareholder” system, which is specific to the Croatian transformation and privatization process. Contracts on the sale of shares were concluded with 641,152 former and current employees of formerly socially-owned enterprises who thereby became small shareholders. In 1996, limited mass privatization schemes were also introduced which were aimed at the socially most-needy categories of the population that were hardest hit by the war (displaced persons, wartime and civilian disabled, families of missing persons, war veterans, etc.). Approximately 226,000 holders of vouchers participated in this process, and they could bid for the shares of 471 joint stock companies, despite the fact that the available portfolio at that time was not suitable for distribution to socially needy population categories. In this manner, only the size and value of the CPF portfolio was greatly reduced, so that the previous government often made statements to the effect that the privatization of formerly socially-owned enterprises was practically complete. How inaccurate this was is shown by the data on the portfolio’s value trends.

Figure 1. NATIONAL PORTFOLIO VALUE TRENDS, 1991 - 2001



HRK 000                      VALUE OF STATE PORTFOLIO  
(consolidated portfolio)  
January                      December                      May                      June                      November                      February

It is true that by the end of 1998, the total CPF portfolio was reduced to a value of HRK 3,833,699,451 (by way of comparison, the total social capital which was put up for privatization was estimated at HRK 86,444,747,205). However, during 1999, when an extensive liquidity crisis emerged and many privatized companies failed (particularly chains of companies owned by so-called tycoons), an interesting phenomenon occurred as failed companies were returned to state ownership (renationalization). They were actually returned to the Fund’s portfolio, but with a negative balance of capital and employees.

**Figure 2. REDUCTION IN NUMBER OF CONTRACTS WITH SMALL SHAREHOLDERS, 1991 – 2001**

CONTRACTS WITH “SMALL SHAREHOLDERS”

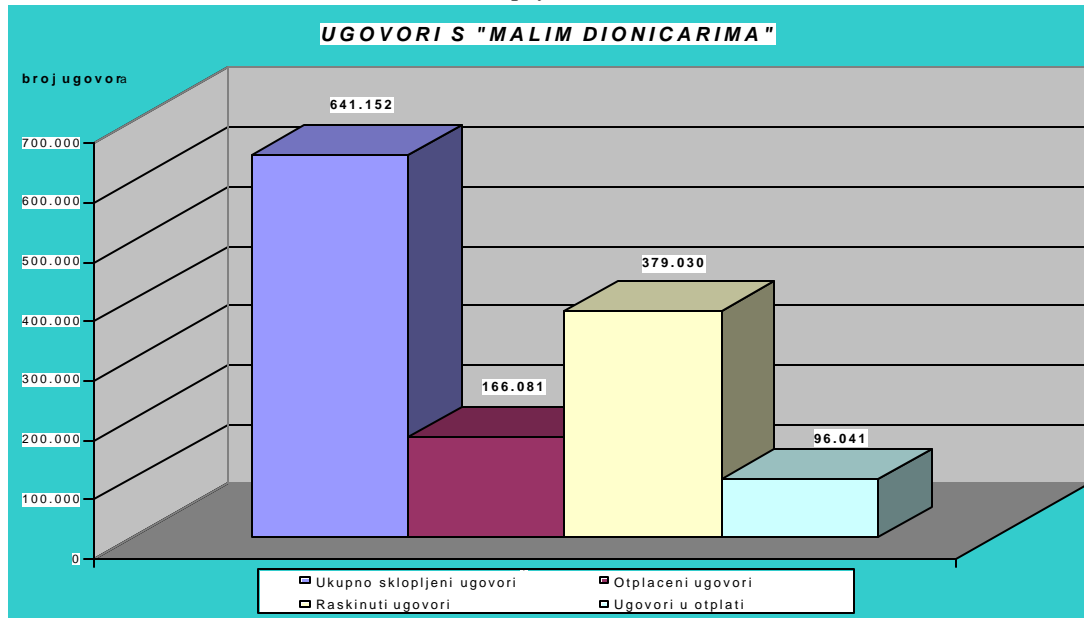
no. of contracts

Total concluded contracts

Terminated contracts

Fully paid contracts

Repayment contracts



*Simultaneously, the unfavorable socio-economic circumstances caused the “small shareholder” system to collapse with similar consequences, the return of shares to the state portfolio. Out of 641,152 contracts on the purchase of shares, only 166,081 were paid in full, while as many as 379,030 contracts were.*

*The cause for this situation should be sought in the low buying power of the average shareholder, in the high price of shares which are paid for not at the market but rather at the par value (with a relatively small discount) with regard to the truly lower value of the portfolio, and in the fact that small shareholders as a rule have no material interest in keeping shares since dividends are rarely paid.*

*The result of this process is that there is now a portfolio consisting of shares/interests in 1,850 joint stock companies with a par value of HRK 20,872,279, which is considerably higher than the stated remainder of HRK 3.8 billion.*

All in all, one can conclude that the privatization process in the first transition decade (1991-2000) did not achieve the expected economic objectives, and that it is accompanied by a series of unwanted and distorted effects. Thus, it has not fulfilled the expectations of neither analysts nor the wider public. Privatization policy in this preceding period was essentially characterized by:

- The lack of political will which would have resulted in the development of a comprehensive privatization strategy with clearly demarcated objectives for the privatization process, as well as the deadlines and progress of its implementation based on different privatization models adapted to the situation in the portfolio;
- A lack of awareness of privatization as an essential factor and catalyst within the overall transition process with significant economic, social and political implications;
- The unofficial privatization policy was partially aimed at the creation of a politically acceptable entrepreneurial class.
- The privatization process was not sufficiently a function of the structural adaptation of the economic system to that of EU countries, and it was often on the periphery of overall economic policy, often marked by frequent improvisations and incompetent management.

There are several indicators of the economic results which show a considerable chasm between the desired objectives and reality. The following are key:

- *The share of the state sector in the creation of GDP and employment and its role in the economy are still too great;*
- *The participation of foreign investors in the process (portfolio investment) is comparatively low, and this is reflected in the overall level of foreign direct investment (FDI);*
- *Due to high investment risk, all up until the sale of Croatian Telecom (HT) in October 1999, significant funds from privatization were not even earned;*
- *The mutual stimulation of privatization and the development of an effective financial market did not occur because of the relatively modest share of privatized enterprises, but also because of the frequent appearance of financing by state institutions based on the principle of preference for individual shareholders;*

- *Ineffective corporate governance resulted in the considerably lower effectiveness of joint stock companies, which was particularly caused by the fact that management of the state-owned portfolio was dispersed and each state-owned holder of shares (HZMO, HZZO, DAB and others) conducted independent business policy. Systematic coordinated state portfolio management by its holders was lacking, which had as a consequence the progressive reduction of the portfolio's value and increasingly poorer performance by the companies;*
- *Due to a specific privatization concept which formally preferred insiders (employees, managers) and enabled the de facto formation of a narrow "chosen" class of owners (tycoons), the degree of technological progress and innovation, and of investment in companies, was inappropriate, so that the process itself resembled something more like the "seizure of ownership positions" than real investment. The general consequence was disinvestment and the depletion of healthy company assets, which often led to bankruptcy;*
- *A stagnation occurred in market demonopolization and the development of market competition (competition policy) based on "equal rights for all," for Croatia remained outside of any form of institutional links with the EU, so the imperative of harmonization with competition policies and regulations on EU markets was completely neglected;*
- *Redistribution of formerly socially-owned capital to the wider population, despite the completion of a "mini" voucher privatization and the "small shareholder" concept, remained at the lower limit in relation to other transition countries (40% in comparison to the average of 40-70% in 18 transition countries which conducted one of the mass privatization schemes);*
- *The necessary level of transparency was not created due to the constantly changing legislation on the privatization framework, and a particular problem was the vagueness of laws that created an unlimited space for arbitration based on a principle of ad hoc objectives and interpretation established by private elites. The consequence was the decision made by potential investors (particularly foreign) not to participate in the process, and the perception that privatization, as a predominantly illegal and immoral activity, lay more in the domain of the unofficial rather than the official economy.*

## **II. NEW PRIVATIZATION POLICY**

### **Consolidation of the Inherited Portfolio**

**As an initial move, a precise inventory of the conditions in the companies encompassed by the Fund's portfolio was conducted in order to establish further steps associated with the future privatization of the residual portfolio, accompanied by the more effective management of this portfolio.**

An analysis of the portfolio revealed its devastating status: total losses of HRK 6.2 billion, the accompanying portfolio loss of HRK 3.03 billion, daily losses of HRK 7.5 million, over-indebtedness, insolvency, technological obsolescence and inadequate staffing, as well as an absolute lack of a strategic approach to the management of these portfolios and quality corporate governance, which led to the devaluation of the portfolio to only 19 percent of its par value.

*In a very short period, consolidation measures were implemented as a prerequisite to any strategically conceived management and upcoming privatization:*

- *The portfolios of all “state” shareholders were consolidated to make possible unified and higher-quality management which is now conducted by the Fund in the role of a commissioner, i.e. in its own name but on behalf of other “state shareholders.” This is largely a matter of shares in companies which were both in the Croatian Privatization Fund’s portfolio and also held by other “state” shareholders such as the Croatian Pension Insurance Institute (HZMO), the Croatian Health Insurance Institute (HZZO), state-owned joint stock companies, etc. The consolidation led to a nominal increase of HRK 8 billion. The transfer process is still under way so the number of transferred companies is continually changing, either because the transferring parties believe that they have to also transfer the shares of bankrupt companies, or because the number of transferred companies is growing. Due to these everyday changes, certain inconsistencies have appeared in the data on the state portfolio, because reviews are always released on a specific day of the week. Accurate data will only be provided after all state shareholders submit the documentation required for entry in the share register to the Fund. This procedure is in progress and only the documents for the HZMO’s shares are still lacking. On the date of this report, the value of the total portfolio transferred by other state transferring parties exceeds HRK 14 billion.*
- *Coordination Boards were formed for the implementation of management strategies for state-owned portfolios. These boards consisted of Fund experts representatives of the competent ministries, and expert representatives of local self-government units;*
- *The criteria have been defined which will determine the importance of individual commercial entities to the state;*
- *The necessary level of transparency was secured in the consolidation process, and all parties interested in the status and further plans for individual companies in the portfolio are being duly informed;*
- *An analysis of each individual company from the state portfolio has been conducted, and processes have been initiated for their structural and financial restructuring, which are frequently conducted within the framework of bankruptcy proceedings depending on concrete business performance, market position and other factors;*

- *Based on the operating plans of each company, the prerequisites have been created for negotiations and settlement with creditors tied to the resolution of accumulated liabilities of the companies from the previous period in order to facilitate comprehensive financial consolidation without the initiation of bankruptcy proceedings;*
- *Privatization models have been developed for individual groups of companies from the portfolio, with emphasis on the transparency of privatization procedures in accordance with international standards appropriate to the status of the companies in the portfolio;*
- *As opposed to previous privatization practice, an orientation for sales options has been adopted which will take into account the actual value of the shares and interests. This is significantly different from the previous insistence on the par value of the shares as the only possible basis for determining the sales price;*
- *Through draft amendments to the Privatization Act, which have introduced the institutions of the absolute auction, sales at market prices, granting additional extensive discounts to “small shareholders” to halt their dispersal trend, etc., the legal framework for the implementation of active and open privatization policy capable of attracting foreign investment is being created.*

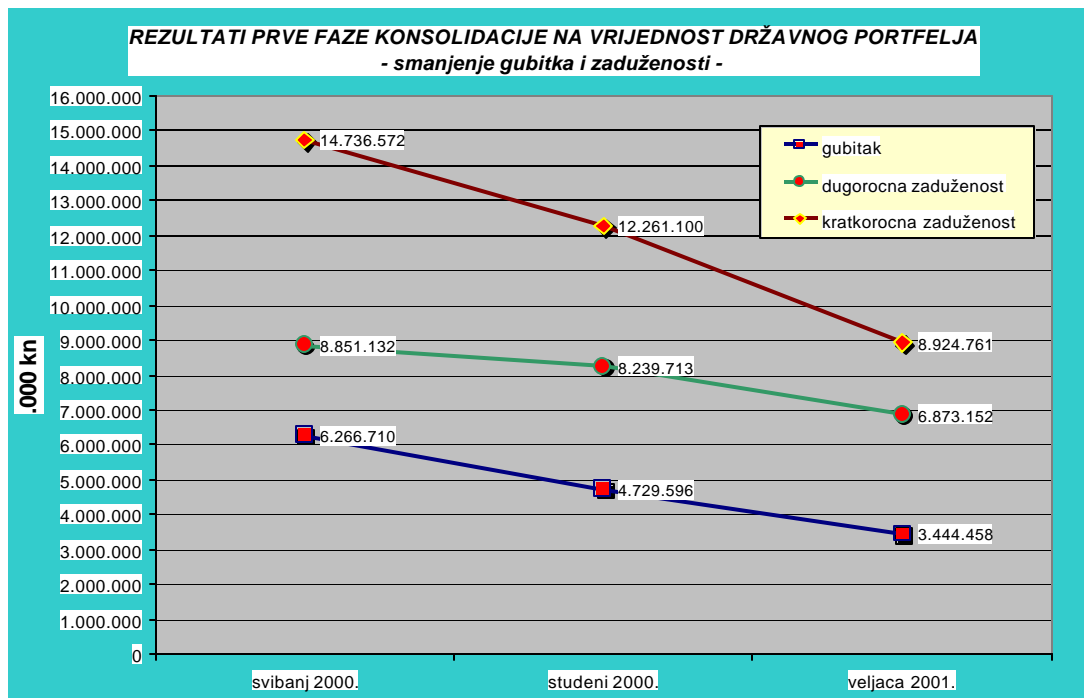
*Through the implementation of the first phase of consolidation, the state portfolio was numerically reduced, and its daily losses and levels of indebtedness and insolvency were reduced considerably, which has created the prerequisites for the privatization of the residual portfolio.*

**Figure 3. RESULTS OF THE FIRST PHASE OF STATE PORTFOLIO CONSOLIDATION**

RESULTS OF THE 1<sup>ST</sup> CONSOLIDATION PHASE IN STATE PORTFOLIO VALUE  
 - reduction of losses and indebtedness -  
 HRK 000

loss  
 long-term debt  
 current debt

May 2000      November 2000      February 2001



### **Strategic Objectives of the New Privatization Policy**

After the shortcomings of previous privatization policy were established, and taking into account the portfolio's status and the obsolescence of previous privatization models, the redefinition of the strategic objectives of privatization in the coming period and, as a consequence, the redefinition of privatization models has been initiated. A part of the changes being proposed will require amendments to the legislative framework tied to this process (the Privatization Act).

We consider the strategic objectives in reference to the further privatization process the following:

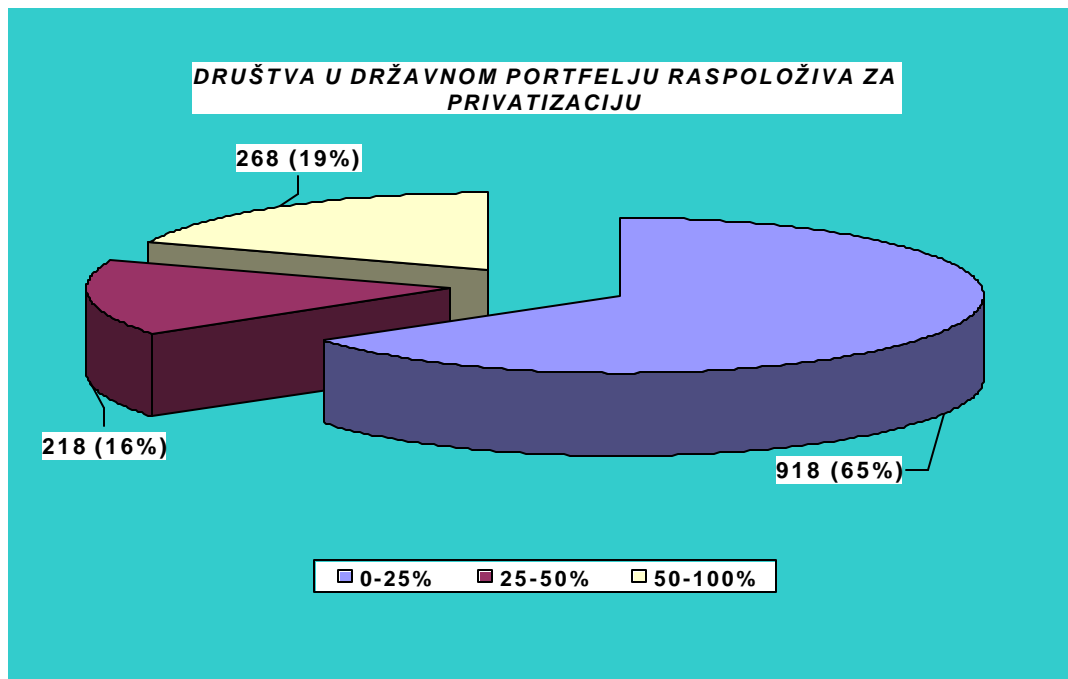
- increasing the participation of foreign, especially strategic, investors in the process with the goal of introducing new management skills, capitalizing on knowledge and cutting-edge technology, which would produce the best results in the sphere of restructuring, management and effectiveness in the operations of privatized companies;*

- b) *expansion of preferential participation of domestic citizens in the process, and the fairer redistribution of social capital through the institutions stipulated by the new Privatization Act as an integral component of privatization policy;*
- c) *increasing budgetary revenues from privatization;*
- d) *liberalization and demonopolization of the market and further advancement of market competition, and expansion of the conditions for competition with the goal of coming into line with trends on EU markets as well as the world market as a result of privatization;*
- e) *the multifaceted improvement of the effectiveness of the overall economy, meaning its structural adaptation to the economies of EU countries;*
- f) *restoring legitimacy and confidence to the institutional organization of the privatization process which were considerably shaken in the immediately preceding phase of the privatization process, which can otherwise be attained through the marked transparency of privatization procedures;*
- g) *the successful implementation and completion of the transition process in the political sphere, the social system and other areas which is causally linked with the quality administration of the privatization process.*

#### *Privatization of the Residual Portfolio*

*The initial portfolio of 2,650 companies created in the privatization process with a nominal value of HRK 86,444,747,205 was reduced during the period of the former authorities to 1,850 companies with a total nominal value of HRK 20,872,279. In all of six months, the portfolio managed by the CPF was reduced to 1,404 joint stock companies in which the value of the state portfolio is nominally HRK 26,658,487,000.*

Figure 4. NUMBER OF COMPANIES IN THE STATE PORTFOLIO IN FEBRUARY 2001



#### COMPANIES IN STATE PORTFOLIO AVAILABLE FOR PRIVATIZATION

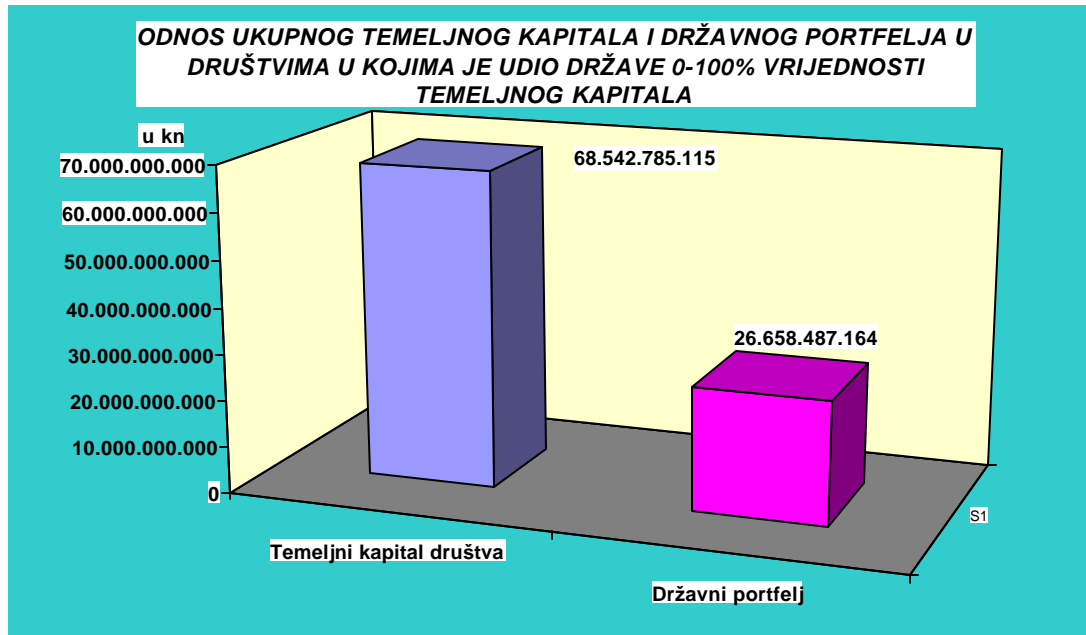
The portfolio managed by the CPF and earmarked for privatization consists of 918 companies in which the state's share as a shareholder/interest holder is less than 25 percent of equity value, whose nominal value is HRK 2,314,466,963, and 488 companies in which the state owns over 25 percent of the equity value, whose nominal value is HRK 24,344,020,037.

#### Privatization Models

In order to ensure the most transparent, fastest and quality progress possible in the privatization process, the following criteria have been defined which will form the basis for the distribution of the residual portfolio within the framework of individual models:

- A. percentage share of the state portfolio in the equity of a company;
- B. business performance of the companies being privatized;
- C. strategic importance of a given economic entity for a region or the state as a whole;
- D. assessment of the possible interest of investors in a given company;
- E. the creation of preconditions for the affirmation of worker shareholding and additional discounts to reinforce small shareholding

Figure 5. VALUE OF CAPITAL BEING PRIVATIZED



RATIO BETWEEN EQUITY AND STATE PORTFOLIO SHARE IN COMPANIES IN WHICH THE STATE SHARE IS 0-100% OF EQUITY VALUE

in HRK

Company equity

State Portfolio

*In contrast to the previous practice of insistence on the nominal value of shares as, generally, the only possible sales price, the planned privatization models take into account the real value of shares/interests.*

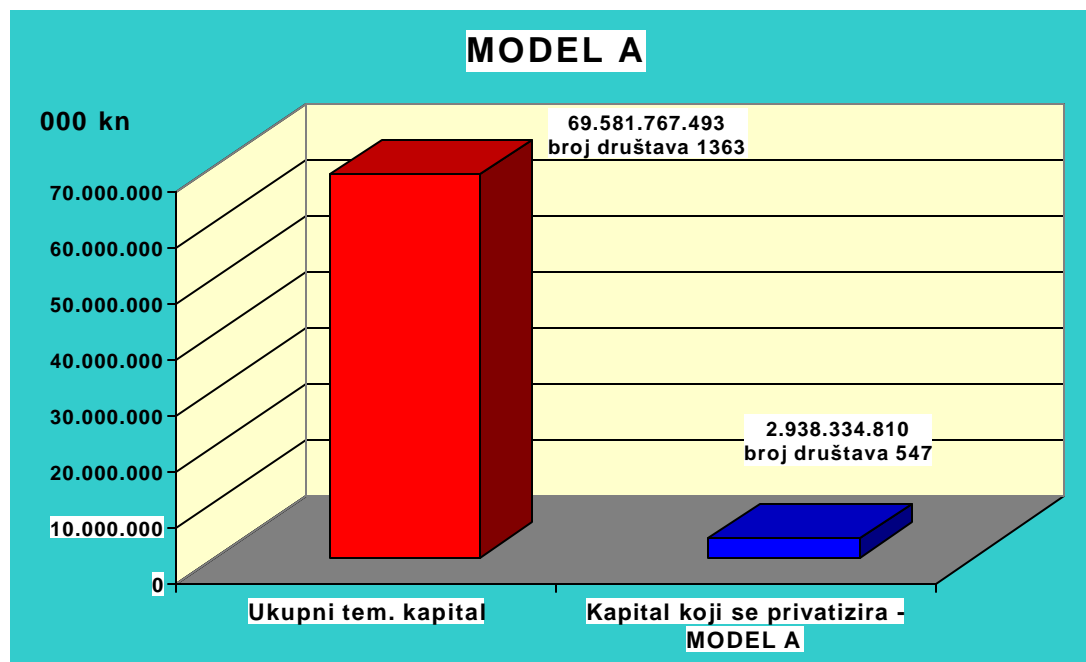
*In the new Privatization Act, as an essential instrument of the new privatization policy, the concept of the absolute auction is being introduced, the basis for sale at market value is being created, and the decision-making techniques for sales and establishment of tender conditions is being simplified. Additional stimulative discounts are being introduced for small shareholders, as well as the ESOP privatization program to sell shares to employees under particularly favorable conditions (worker shareholding), which creates a normative framework for the implementation of open and effective privatization policies.*

*In the context of the aforementioned, the following privatization models have been foreseen:*

A. Privatization through the settlement of the capital outlays of the Ministry of Public Works, Construction and Renewal, the Ministry of Justice, Administration and Local Self-Government and the Ministry of Transportation, Communications and Maritime Affairs, as well as the Croatian Water Management Board;

According to this model, 547 companies from the state portfolio are being privatized, or 40.13 percent of the companies in the state portfolio available for privatization. This represents a portfolio worth HRK 2,938,334,810 and accounts for 4.22 percent of the total equity of the companies in the portfolio. We should note that although this model is not novel, it introduces a completely new sales technique which additionally stimulates the development of the securities market, as all transactions are conducted on the stock exchange and payment is made in vouchers acquired by contractors involved in renewal projects and certain other infrastructure projects for the needs of the Croatian Water Management Board, the Justice Ministry and the Transportation, Communications and Maritime Affairs Ministry. The deadline for the completion of privatization under this model is the end of 2001.

Figure 6. MODEL A



HRK 000

no. of companies – 1,363

no. of companies – 547

Total equity

Capital being privatized

*B. Privatization by distribution of shares free of charge to the persons authorized in Article 11 of the Transformation Act (disabled persons, families of Croatian soldiers killed in action);*

According to this model, 18 companies from the state portfolio will be privatized, or 1.32 percent of the companies in the state portfolio available for privatization. This represents a portfolio worth HRK 107,089,031, and it accounts for 0.15 percent of the total equity of the companies. The deadline for the completion of privatization under this model is the end of 2001.

**Figure 7. MODEL B**

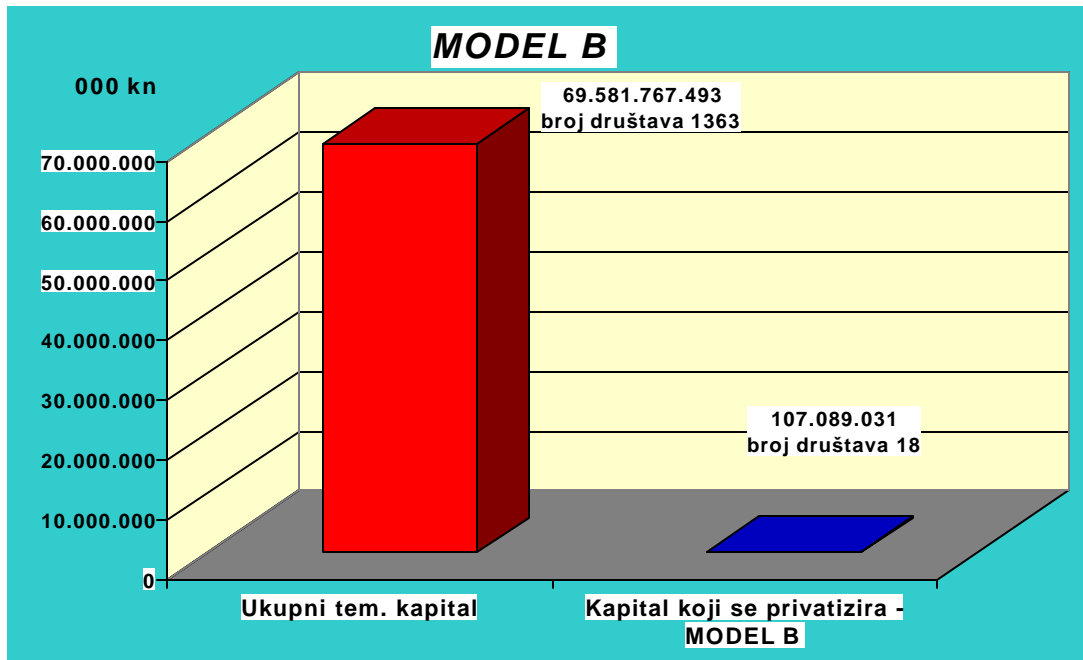
HRK 000

no. of companies – 1,363

no. of companies – 18

Total equity

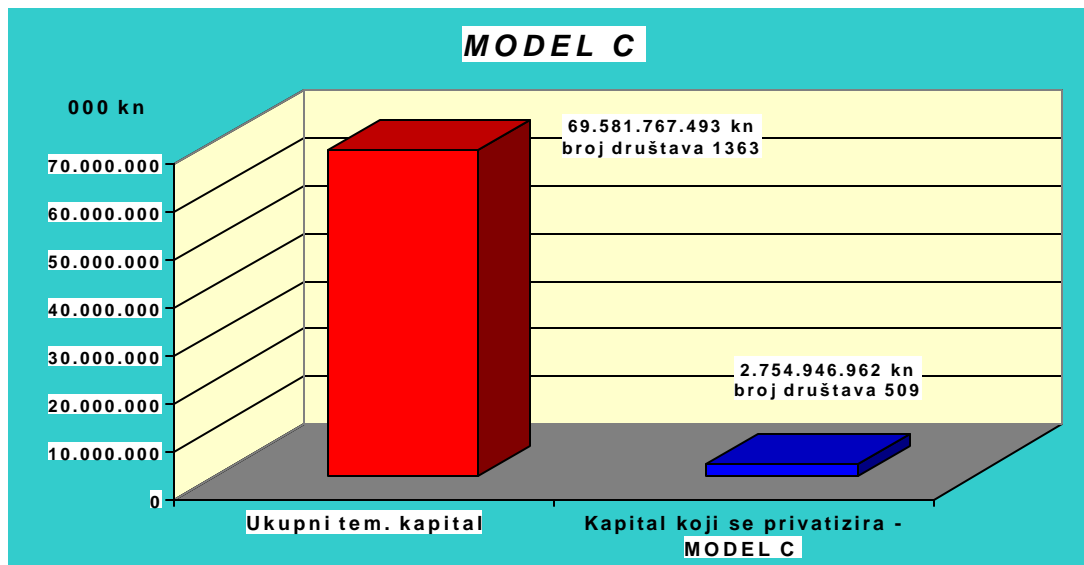
Capital being privatized



*C. Privatization through the distribution of shares free of charge to the authorized persons from Article 45 of the Seized Assets Restitution Act (i.e. assets seized under the Yugoslav communist regime);*

According to this model, 509 companies from the state portfolio are being privatized, or 37.34 percent of the companies in the state portfolio available for privatization. This represents a portfolio worth HRK 2,754,946,962 and accounts for 3.96 percent of the total equity of the companies. The deadline for the completion of privatization under this model depends on the dynamics of issuing legally-valid resolutions by the competent county offices.

Figure 8. MODEL C



HRK 000

no. of companies – 1,363

no. of companies – 509

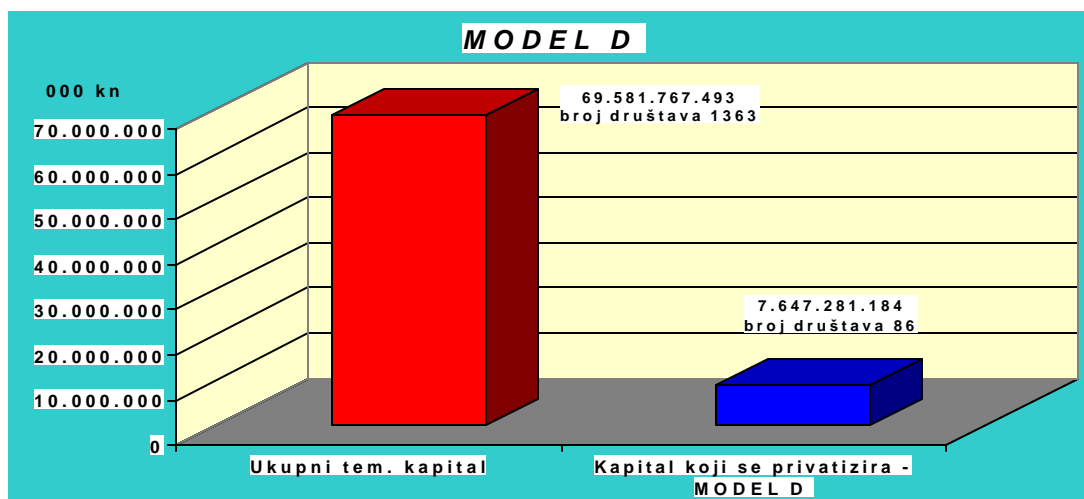
Total equity

Capital being privatized

#### D. Privatization by public tender;

According to this model, 86 companies from the state portfolio are being privatized, or 6.31 percent of the companies in the state portfolio available for privatization. This represents a portfolio worth HRK 7,647,281,184 and accounts for 10.99 percent of the total equity of the companies. The deadline for the completion of privatization under this model is 2001-2002.

Figure 9. MODEL D



HRK 000

no. of companies – 1,363

no. of companies – 86

Total equity

Capital being privatized

*E. Privatization through a public auction;*

According to this model, 337 companies from the state portfolio are being privatized, or 24.72 percent of the companies in the state portfolio available for privatization. This represents a portfolio worth HRK 1,312,530,803 and accounts for 1.89 percent of the total equity of the companies. The deadline for the completion of privatization under this model is 2001.

*Figure 10. MODEL E*

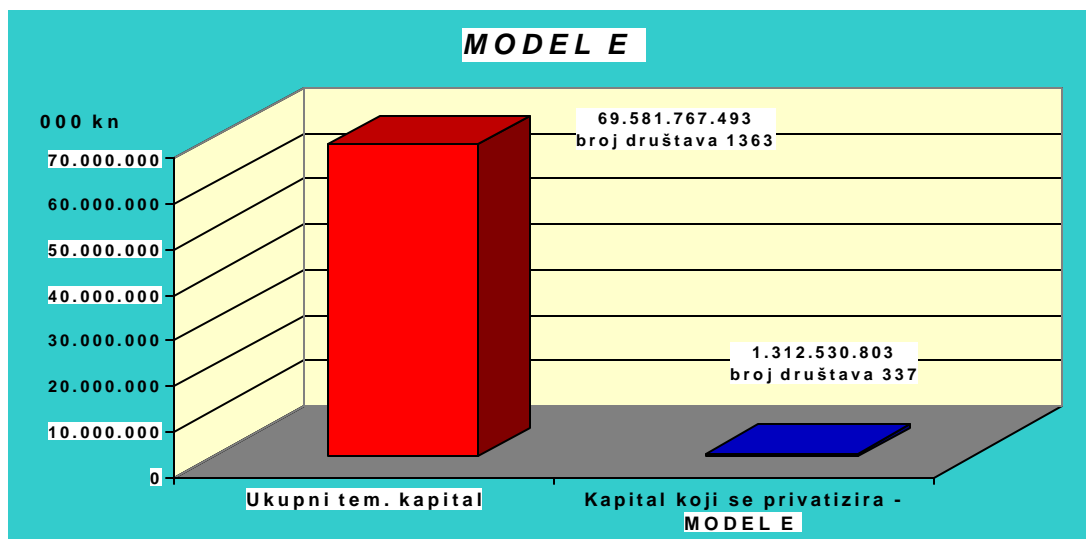
HRK 000

no. of companies – 1,363

no. of companies – 337

Total equity

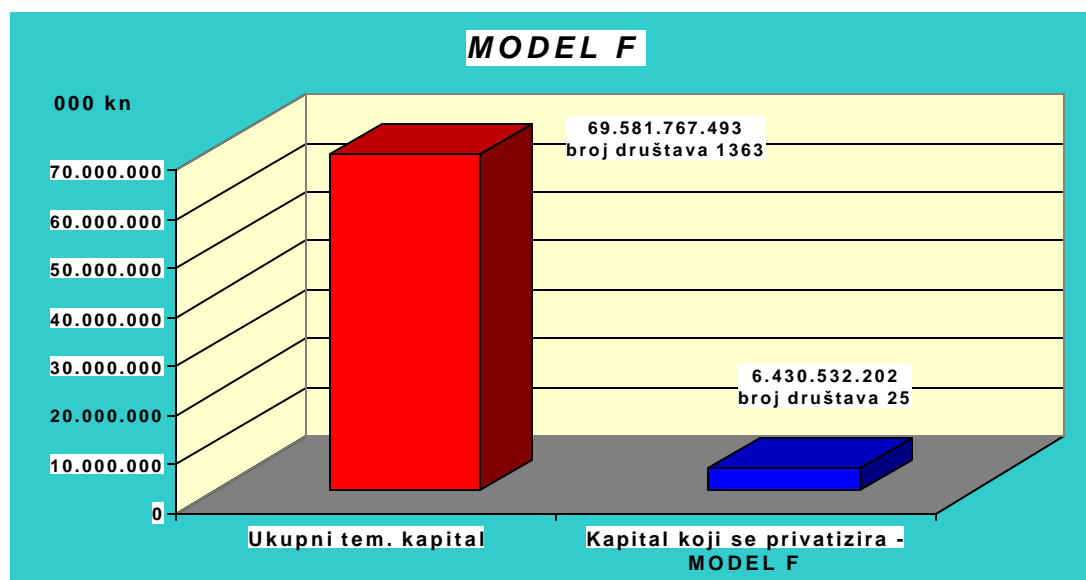
Capital being privatized



*F. Privatization with the participation of privatization advisers;*

According to this model, 25 companies from the state portfolio are being privatized, or 1.83 percent of the companies in the state portfolio available for privatization. This represents a portfolio worth HRK 6,430,532,202 and accounts for 9.24 percent of the total equity of the companies. The deadline for the completion of privatization under this model is 2001-2002.

Figure 11. MODEL F



HRK 000

no. of companies – 1,363

no. of companies – 25

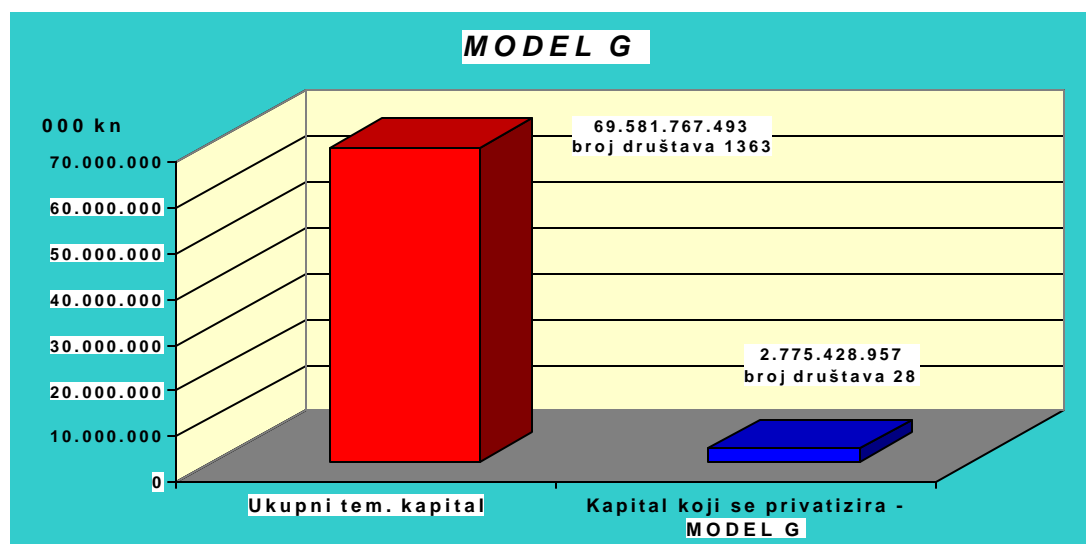
Total equity

Capital being privatized

*G. Privatization through the sale of shares at a discount to employees and former employees (small shareholding);*

*According to this model, 28 companies from the state portfolio are being privatized, or 2.05 percent of the companies in the state portfolio available for privatization. This represents a portfolio worth HRK 2,775,428,957 and accounts for 3.99 percent of the total equity of the companies. The deadline for the completion of privatization under this model is 2001.*

Figure 12. MODEL G



HRK 000

no. of companies – 1,363

no. of companies – 28

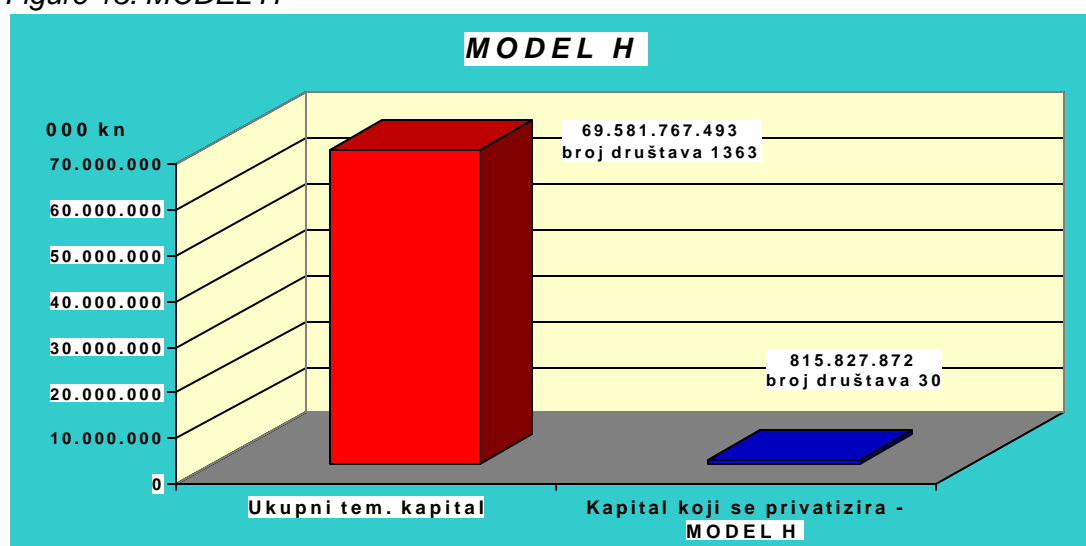
Total equity

Capital being privatized

H. Privatization within the framework of the ESOP program (worker shareholding);

According to this model, 30 companies from the state portfolio are being privatized, or 2.20 percent of the companies in the state portfolio available for privatization. This represents a portfolio worth HRK 815,827,872 and accounts for 1.17 percent of the total equity of the companies. The deadline for the completion of privatization under this model is six months upon the adoption of the new Privatization Act.

Figure 13. MODEL H



HRK 000

no. of companies – 1,363

no. of companies – 30

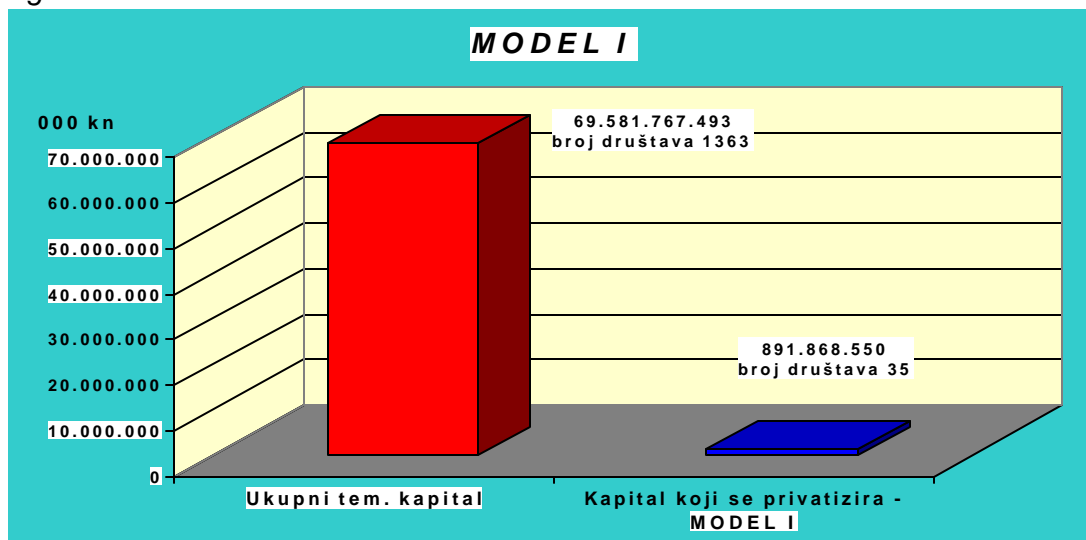
Total equity

Capital being privatized

*I. Privatization in bankruptcy proceedings;*

According to this model, 35 companies from the state portfolio are being privatized, or 2.57 percent of the companies in the state portfolio available for privatization. This represents a portfolio worth HRK 891,868,550 and accounts for 1.28 percent of the total equity of the companies. The deadline for the completion of privatization under this model is 2001 for the initiation of the proceedings, while finalization will depend on the rate at which these matters are handled by the commercial courts.

Figure 14. MODEL I



HRK 000

no. of companies – 1,363

no. of companies – 35

Total equity

Capital being privatized

*J. Privatization through the distribution of shares free of charge to the persons authorized in Article 8 of the Specific Companies Rehabilitation Act*

According to this model, 5 companies from the state portfolio are being privatized, or 0.37 percent of the companies in the state portfolio available for privatization. This represents a portfolio worth HRK 188,999,946 and accounts for 0.27 percent of the total equity of the companies. The deadline for the completion of privatization under this model is 2001.

**Figure 15. MODEL J**

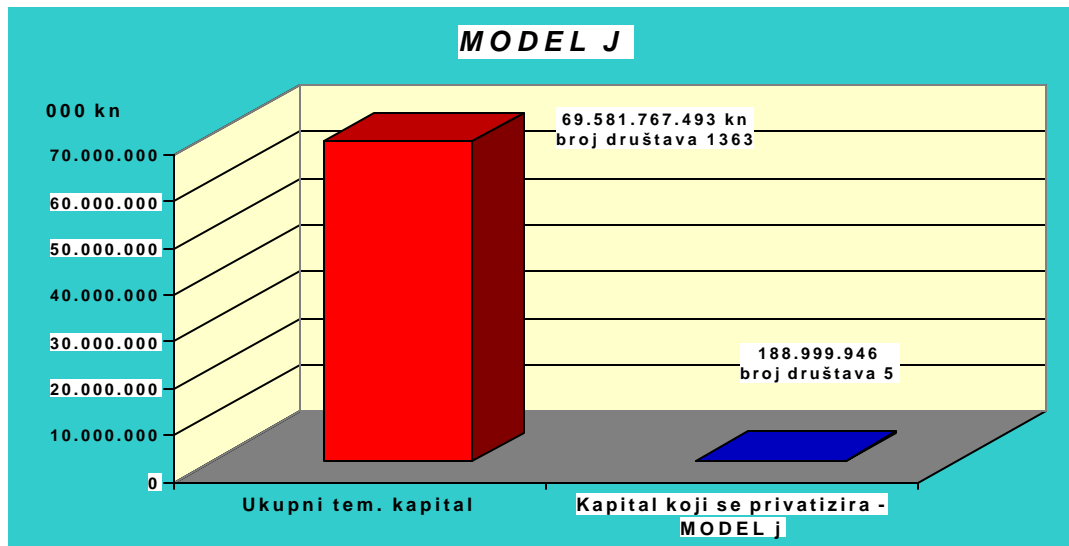
HRK 000

no. of companies – 1,363

no. of companies – 5

Total equity

Capital being privatized



### *Restructuring of a portion of the tourism portfolio*

The proposed models will privatize the entire state portfolio, while particular attention will be dedicated to the companies in the field of tourism. Namely, it is a fact that several large companies are encompassed in this portfolio, and their privatization would mean the creation of monopolies over entire destinations, such as the Gulf of Kvarner, while their very enormity brings the even the idea of their sale into question. This is the reason why a restructuring process will be conducted before privatization in such companies to the point of their division into logical units. The purpose of this is to implement more effective privatization and to create competition in individual regions. An additional reason for such an approach is also the creation of budgetary revenues, for which the chances are greater in cases of the privatization of smaller functional units (Liburnia Riviera Hotels, Jadran Holding Crikvenica, Suncani Hvar, Imperijal Rab, HTP Primošten, Croatia Cavtat and Cavtat, Cavtat). The services of special advisers will be engaged for the privatization of these firms.

### *Companies with special status*

Currently there are several companies with special status in the portfolio, and these are Croatia osiguranje d.d. Zagreb, ACI d.d. Opatija, Kapitalni fond and HMID, which have not been encompassed in any of the proposed models. They will rather be privatized pursuant special enactments. In this sense, the possibility of assuming the portfolio of Kapitalni fond is also being considered.

### Comparative review of previous sales results by model

A comparison of the results from 1999 in relation to the period in which the Fund's new management was active shows positive steps forward in achieved sales prices, collection and in the structure of sales itself, particularly in the indirect results of sales in the context of the contractual obligations of buyers to settle the debts of the companies whose shares they purchased.

In this period under new management, the shares of 319 companies were sold as opposed to the 270 companies in 1999. Out of the latter number, as many as 234 companies were sold to settle capital outlays in 1999, while in 2000 only 157 of the 319 companies were sold to settle capital outlays. In addition, under the former management only 20 companies were sold by public auction, as opposed to the 145 sold in this manner in 2000/2001.

In 1999 there were no indirect benefits from privatization since all sales under special conditions resulted in the termination of contracts, while these benefits accounted for HRK 178,500,000 in 2000/2001.

Figure 16 – COMPARATIVE REVIEW OF SALES, 1999 - 2000

| Godina          | Ukupno privatizirano |                      | MODELI PRIVATIZACIJE |                      |          |                   |           |                    |                |                |                  |                |                    |                |
|-----------------|----------------------|----------------------|----------------------|----------------------|----------|-------------------|-----------|--------------------|----------------|----------------|------------------|----------------|--------------------|----------------|
|                 |                      |                      | A                    |                      | B        |                   | D         |                    |                | E <sub>1</sub> |                  | E <sub>2</sub> |                    |                |
|                 | broj                 | vrijednost kn        | broj                 | vrijednost kn        | broj     | vrijednost kn     | broj      | ugovorna cijena kn | % nom. vrijed. | broj           | vrijednos t kn   | broj           | ugovorna cijena kn | % nom. vrijed. |
| 1999.           | 270                  | 779.107.782          | 234                  | 770.817.195          | 0        | 0                 | 16        | 7.808.912          | 3,02           | 20             | 481.675          | 0              | 0                  |                |
| 2/2000.-2/2001. | 319                  | 1.009.015.940        | 157                  | 847.509.462          | 4        | 90.412.904        | 10        | 63.996.725         | 65,35          | 33             | 638.517          | 112            | 6.458.332          | 9,22           |
| <b>Ukupno</b>   | <b>589</b>           | <b>1.788.123.722</b> | <b>391</b>           | <b>1.618.326.657</b> | <b>4</b> | <b>90.412.904</b> | <b>26</b> | <b>71.805.637</b>  |                | <b>53</b>      | <b>1.120.192</b> | <b>112</b>     | <b>6.458.332</b>   |                |

A - privatizacija podmiranjem kapitalnih izdataka Min.obnove, Min.pravosuda, Min.prometa i veza i Hrvatskih voda

B - privatizacija dodjelom bez naknade ovlaštenicima iz clanka 11. Zakona o pretvorbi društvenih poduzeca (invalidi i obitelji poginulih branitelja)

D - privatizacija tehnikom javnog prikupljanja ponuda

E<sub>1</sub> - privatizacija tehnikom prodaje na burzi

E<sub>2</sub> - privatizacija tehnikom konacne javne dražbe

| Year  | Total privatized | PRIVATIZATION MODELS |             |     |  |
|-------|------------------|----------------------|-------------|-----|--|
| no.   | value (HRK) .... | contract price (HRK) | % par value | ... |  |
| Total |                  |                      |             |     |  |

A – privatization by settling capital outlays of Renewal Min., Justice Min., Transp.&Comm. Min. & Croatian Water Mgmt. Board

B – privatization by distribution free of charge to persons from Art. 11 of Transformation Act (disabled persons and families of Croatian soldiers killed in action)

D – privatization by public tender

E<sub>1</sub> – privatization by sale on stock exchange

E<sub>2</sub> – privatization by absolute auction

### III. CONCLUSION

*The first steps taken in privatization policy clearly indicated the weaker aspects of previous privatization policy and concrete measures were undertaken to eliminate these shortcomings from the privatization process.*

*All of these measures have created conditions which ensure that Croatia has moved from the lower periphery of the group of more advanced transition countries to qualify for the very top of this group in a very short period. In this context, the implementation of effective, fast and transparent privatization of the residual portfolio represents a strategic priority for this administration. The successful implementation of the privatization process will also be reflected positively in a series of vital economic outcomes which were not appropriately realized in the preceding phases of privatization.*

*The first results of the new privatization policy provide grounds for optimism, and they indicate consistency in the implementation of the stated policy of increasing the share of the private sector in GDP as a prerequisite for economic recovery in the upcoming transition period.*

*Hrvoje Vojkovic, President*

END OF AMENDMENT